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MANCHUKUO

THE FOUNDING OF
THE NEW STATE
IN MANCHURIA

Japanese Chamber of Commerce
New York
1933

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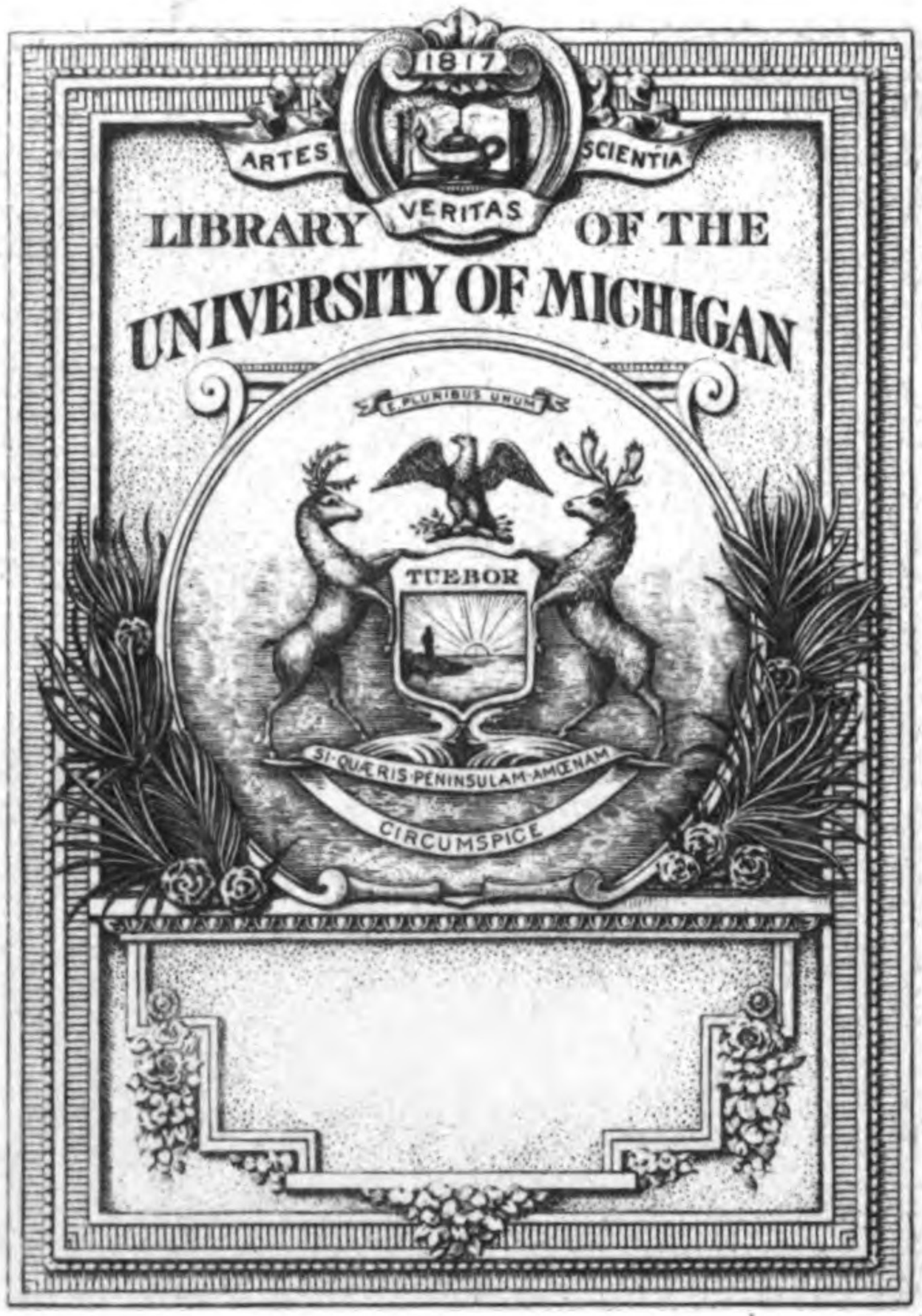

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MANCHUKUO

I. INTRODUCTION

The independent state of Manchukuo came into existence as a result of the spontaneous opposition of the people to the outrageous misgovernment by the Chinese officials under Chang Hsueh-liang. The process of founding a new state and the international complications attending such a tremendous effort have attracted more attention than the causes which moved the Manchurian people to break with the Chinese officials under whom they had suffered every abuse since 1912.

No more adequate statement of the sufferings of the Manchurian people has been made than the eloquent address of Mr. George Bronson Rea, Counsellor to the Ministry of Foreign Affairs of the Government of Manchukuo, before a meeting at Geneva, in which he said:

Soya Beans—The Pay Crop

"The case for the people of Manchukuo is simple enough. The prosperity of the country consists of its soya-bean crop, which averages five million tons a year. Of this, over three million tons are exported, chiefly to Europe. Over a period of years the average price in London was Yen 100 per ton. Deducting yen 40 for ocean and railway freight charges, this left about yen 60 in Harbin, or roughly yen 200,000,000 that came into the country from the outside. This crop and the receipts therefrom constituted the main wealth of Manchuria.

"In the old days, the farmers brought their beans and other crops into the open market, sold them to the foreign exporter or middleman and received the full market price in real money. The farmer got the money and was happy and prosperous. When the military overlords needed a few million dollars they could raise it without placing any great extra burden on the people. During those halcyon days, Manchuria was conceded to be the most prosperous part of Asia.

"The change in the fortunes of the province came about ten years ago when Marshal Chang Tso-lin became imbued with the idea of extending his sway over the rest of China. To carry out his ambitions, he increased his armies, built the largest arsenal in Asia and started on his career as a conqueror. The slender revenues of Manchuria were not sufficient to meet these heavy war

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demands, so Marshal Chang conceived a new idea in confiscatory taxation. He prohibited the farmer from selling his beans direct to the foreign exporter and compelled him to bring his produce in to certain designated centers to be sold exclusively to his official organization. He imported some new printing presses and tons of paper and started to turn out beautifully engraved notes which he issued as legal currency. The farmer brought his beans into the purchasing centers and received in exchange these worthless pieces of paper. Chang got the beans, sold them for gold and put the gold in his pocket, or his treasury, which is the same thing. The scheme worked.

"By the end of 1931, there was something like the equivalent of six billion silver dollars in these inconvertible paper notes in the hands of the people. As long as the foreign demand for beans held good and the price was high there was a certain reserve behind these notes. The bean crop and the stocks in hand represented this reserve. But, when the demand declined and the bottom dropped out of the market, this reserve was wiped out. This happened in 1931. Instead of three million tons only two million were exported and the price dropped to twenty yen a ton in Harbin. So instead of a revenue of yen 200,000,000 as in former years, only yen 40,0000,000 entered the pockets of the military obligarchy.

"Now the year previous, the Young Marshal had embarked upon another campaign of conquest by occupying Peking and North China with his army at a time when the other combatants in a bloody civil war were exhausted and could offer no resistance to his invasion. Marshal Chang Hsueh-liang found himself holding down a conquered province with an army of 150,000 men dependent upon the revenues of Manchuria for their maintenance. The great drop in the value of the chief export crop practically cut off these revenues and compelled him to squeeze the country dry to make up the deficit. Even his own associates in Manchuria protested against an adventure that was impoverishing the country and demanded that he return to Manchuria and attend to his own business. A deep current of unrest was noticeable in all parts of Manchuria, especially amongst the farmers, the holders of the billions of notes which were now worthless.

"These farmers found themselves impoverished, their purchasing power destroyed, and reduced to the status of slaves, compelled to hand over the product of their toil in exchange for more worthless pieces of paper which could not buy the necessities of life. All the wealth of the province was being confiscated in order to maintain a huge army, one part of which was then holding down a conquered province south of the Great Wall and the other holding the people of Manchuria in subjection in order to provide the funds which perpetuated their bondage."

In a word, the masses of Manchuria opposed the Government of Chang Hsueh-liang because it had robbed

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them. An economic motive drove them to seek liberty from the oppressor and assistance from Japan.

And is this the first time that a people who sought liberty found aid outside their country? Did not the thirteen English colonies in North America find assistance in France in their effort to establish the United States of America? Was not the freedom of Cuba from Spain won by the United States? Were not the Secession States of Europe assisted to independence by the Allied Powers?

Why is it that whenever an event occurs in Asia that directly parallels events in the Western World, Europeans and Americans seem to be outraged? The assistance provided the new state of Manchukuo parallels in every respect the assistance given to Cuba by the United States. Yet, we are told that it was an act of humanity to help Cuba win her freedom. Why is it not an act of humanity to help Chinese in Manchuria to win their freedom?

II. THE FOUNDING OF A NEW STATE

On September 18, 1931, the Japanese Army in the South Manchuria Railway Zone, stationed there in accordance with the Treaty of Portsmouth and the Sino-Japanese Treaty of 1905, was forced to protect the railroad after Chinese troops attempted to blow it up. This led, during the following day, to a complete disintegration of the existent Chinese Government. Marshal Chang Hsueh-liang, then actually responsible for the peace of Manchuria, was in Peiping, where he had been joined by many of the most important officials of the Three Eastern Provinces. Many officials, high and low, disappeared overnight, so that the Japanese Army had to take control to avoid complete anarchy. But the Japanese authorities immediately made it known that they had no intention of assuming governmental authority in Manchuria and they called upon local Chinese to organize themselves and to take over the responsibility of maintaining order.

Finally on December 21, a provisional government was organized at Mukden with Tsang Shih-i,* a re-

* Biographical sketches of Chinese officials will be found in the appendix.

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spected official of the old regime who had been Governor of Liaoning Province,* in charge. The principal task of this government was to organize the new state, to determine upon its principles, to prepare a constitution and to find a personality to head it who would attract all the thirty million inhabitants of Manchuria in support of the new state.

That choice was Henry Pu-yi, formerly Emperor of China, whose ancestral home was in Manchuria, whose people had conquered China in 1644, but who had been driven from the Dragon Throne by insurrection in 1911. Once this choice was made it was possible to plan for the organization of a wholly independent state—Manchukuo.

Declaration of Independence

At a convention held in Mukden during February 16-18, 1932, the following declaration was made by the assembled delegates:

"1. Pressed by the trend of the times, the Manchuria State is founded in obedience to the aspirations of thirty million people, who have for years been trampled under the autocratic rule of self-seeking militarists, who wish to be governed on the principle of racial self-determination, and to live independent of the Republic of China.

"2. The fundamental aim of the Government is to guarantee the life and property of the people; to administer justice with improved laws; to advance the self-government principles; and to encourage industries by reforming a chaotic currency system.

"3. The foreign policy of the State will be based on mutual sincerity and friendship with other states by observing international usages. All obligations for foreign loans secured by treaty agreement previously concluded by the Republic of China, if such obligations belong to the territory of the new State, shall be recognized in conformity with international usage.

"4. The State will develop commerce and industry and be ready to welcome foreign investment, regardless of nationality, in pursuance of the principle of the Open Door and Equal Opportunity.

"5. The principle of racial equality shall be adhered to, and Chinese, Manchurian and Mongolian natives, Korean and Japanese inhabitants, and residents of other nationalities in the Manchuria State shall be accorded equal treatment."†

---

* Also called Fengtien or Mukden Province. Provincial names are occasionally changed in China.

† Third Report on Progress in Manchuria, p. 82.

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On March 1, a Proclamation of the Establishment of Manchukuo was issued in which the following are the most important paragraphs:

"After thorough deliberations for several months past at a number of meetings by the leaders of Fengtien, Kirin, Heilungkiang and Jehol Provinces, Harbin Special District and those under various banners of Mongolia, they have come to the conclusion by unanimity to adopt a practical application of good rule rather than a display of words in the administration of state affairs. Under whatever form of government, the primary duty of the state is to give assurance of peace and security to the people.

"Manchuria and Mongolia had been in the past a separate state detached from China proper. By necessity of the present situation we are in a position to strive for national independence. With the will of the thirty million people, we hereby declare on this day that we sever our relations with the Republic of China and establish the State of Manchukuo, and that we hereby make a public proclamation of the fundamental principles on which this new state is established.

"There shall be no discrimination among those people who now reside within the territory of the new state with respect to race and creed, including the races of the Hans, Manchus, Mongols, Japanese and Koreans; nationals of other countries may upon application as permanent residents acquire equal treatment with others and their rights shall be guaranteed thereby.

"The internal policies shall be to reject the policies adopted in the dark days of the past, to revise laws and enforce local autonomy, to draft able men into the service of the government and elevate officers deserving promotion, to encourage industry, unify the currency system, open up the natural resources, maintain the standard of living, adjust and regulate the administration of the police, eliminate banditry, and to further promote and popularize education, to respect Li-chiao, the teachings of Confucianism and to apply the principle of Wan-tao Chu-i* and practice its teachings. Thus it is designed to give the people enlightenment who live within the state and maintain the honor of perpetuating the peace of Eastern Asia, thus setting a model example of good government to the world.

"The foreign policies of the new state shall be to seek and further promote cordial relations with foreign powers, winning their faith and respect, and to strictly observe international conventions. The debt obligations accruing within the territory of Manchuria by treaty stipulations with various countries prior to the establishment of the new state shall be acknowledged according to the usual international conventions. Foreign investments by all nationalities uniformly shall be welcomed for the furtherance of trade and exploitation of natural resources, thus bringing

* The Principle of the Princely Way.

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the principles of the open door and equal opportunity and the like to a fuller realization."*

On March 9, the new government was inaugurated with Henry Pu-yi as Chief Executive. The capital was established at Changchun, the most central city of Manchuria, where the South Manchuria, the Chinese-Eastern, and the Changchun-Kainei Railroads meet. This city was renamed "Hsinking," or the new capital.

The Organic Laws

Manchukuo is a Constitutional Democracy, the theory of government being that the government exists by the will of the people. Two fundamental laws comprise the Organic Law, which determines the form of government, and the Law Guaranteeing Civil Rights which is similar to a Bill of Rights.

In its principal characteristics, the Organic Law is similar to the general political trend among the Chinese people. There is a Chief Executive, a State Council, a Legislative Council, a Supervisory Council, a Supreme Court and a Supreme Procurator's Office. This structure is a modification of the Yuan system employed by the Nationalist Government in Nanking to which the Chinese people are gradually becoming accustomed, although many of Nanking's improvizations are utterly unacceptable anywhere in China, even in the city of Nanking itself, and therefore are discarded by the Manchukuo Government.

Although it is provided by the Organic Law that the Chief Executive as well as the members of the Legislative Council should be elected by the people at a general election, it has not yet been possible for the State Council to promulgate an Election Law or to plan for an election. This will be possible only after peace has been restored to Manchukuo. Since the organization of the new state, fighting has been continuous between Manchukuo troops assisted by Japanese military contingents and intransigent bandit groups. Although this warfare has delayed the application of the general election law, it was only to be expected that the new state would be

* Third Report on Progress in Manchuria, p. 212.

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opposed by the more rapacious among the Chinese militarists and by the hordes of bandits who have been battening upon their none too secret financial arrangements with officials of the old regime.

It is important to note the Law Guaranteeing Civil Rights. No such law exists in China Proper. For years, Chinese liberals have been demanding such a law. Two years ago Dr. Hu Shih bitterly attacked the Nanking Government for its unwillingness to pass what he called a Bill of Rights. More recently Mme. Sun Yat-sen has organized a Civil Liberties Union to agitate among the Chinese people against what she calls the Terror in China. In a statement on this subject she said:

"Against this Terror we need to wage an uncompromising struggle, and to make a start toward organizing this struggle I am ready to participate in the formation of a general committee in defence of all political prisoners, all victims of the Terror, and to such a movement I am ready to lend all my efforts and all my energies. I invite all the intellectuals of China, all friends of the Chinese people, to associate themselves with this Committee in a struggle against all political persecution."*

The Manchukuo Government commences its career as a state fully recognizing the rights of man to liberty of person and private property.

The law is here given in full because of its historical importance and to contrast the aims of the new state with those of the various governments in China today.

* China Critic, Nov. 3, 1932, p. 1168.

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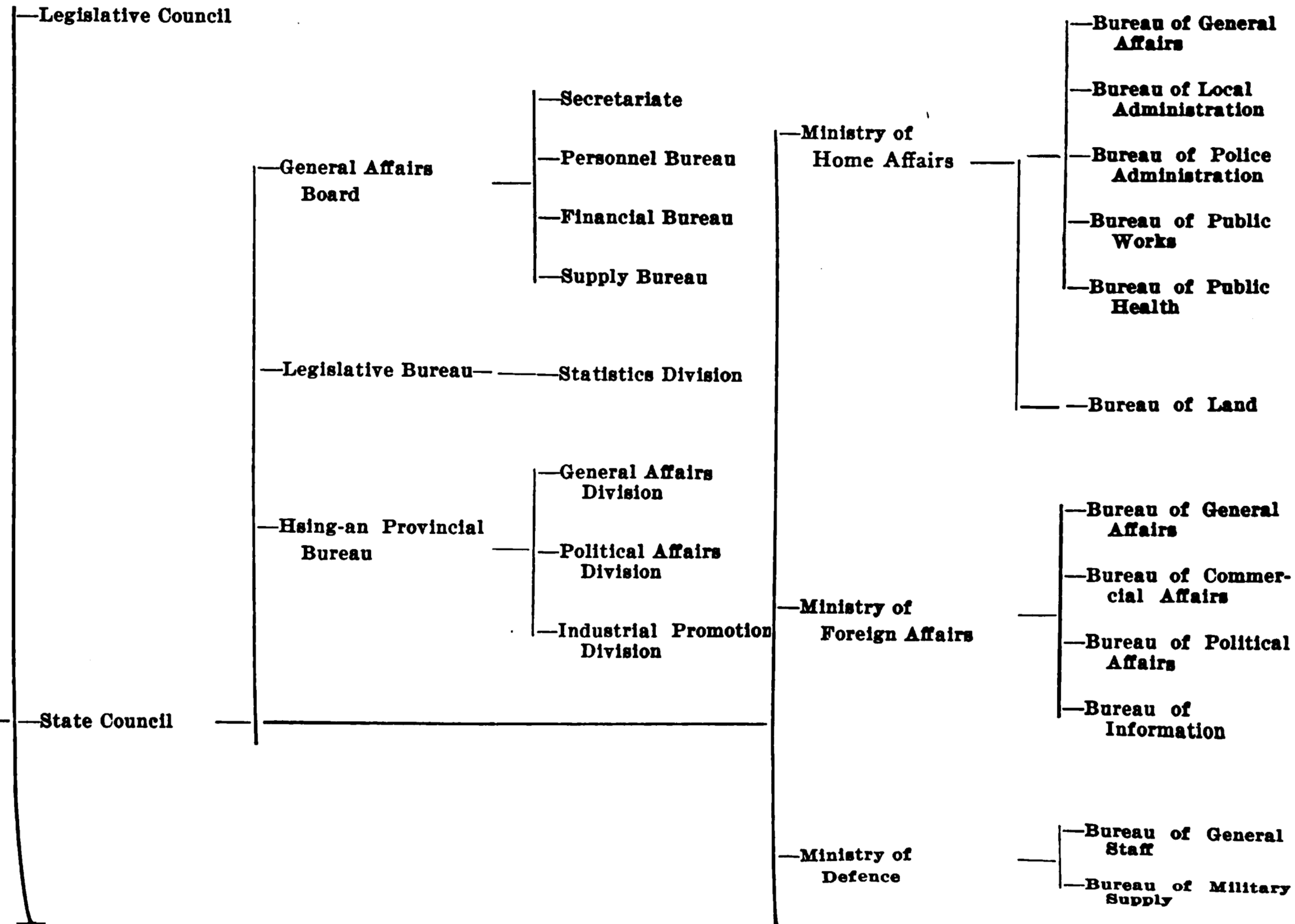
DIAGRAM OF THE ORGANIZATION OF THE MANCHUKUO GOVERNMENT



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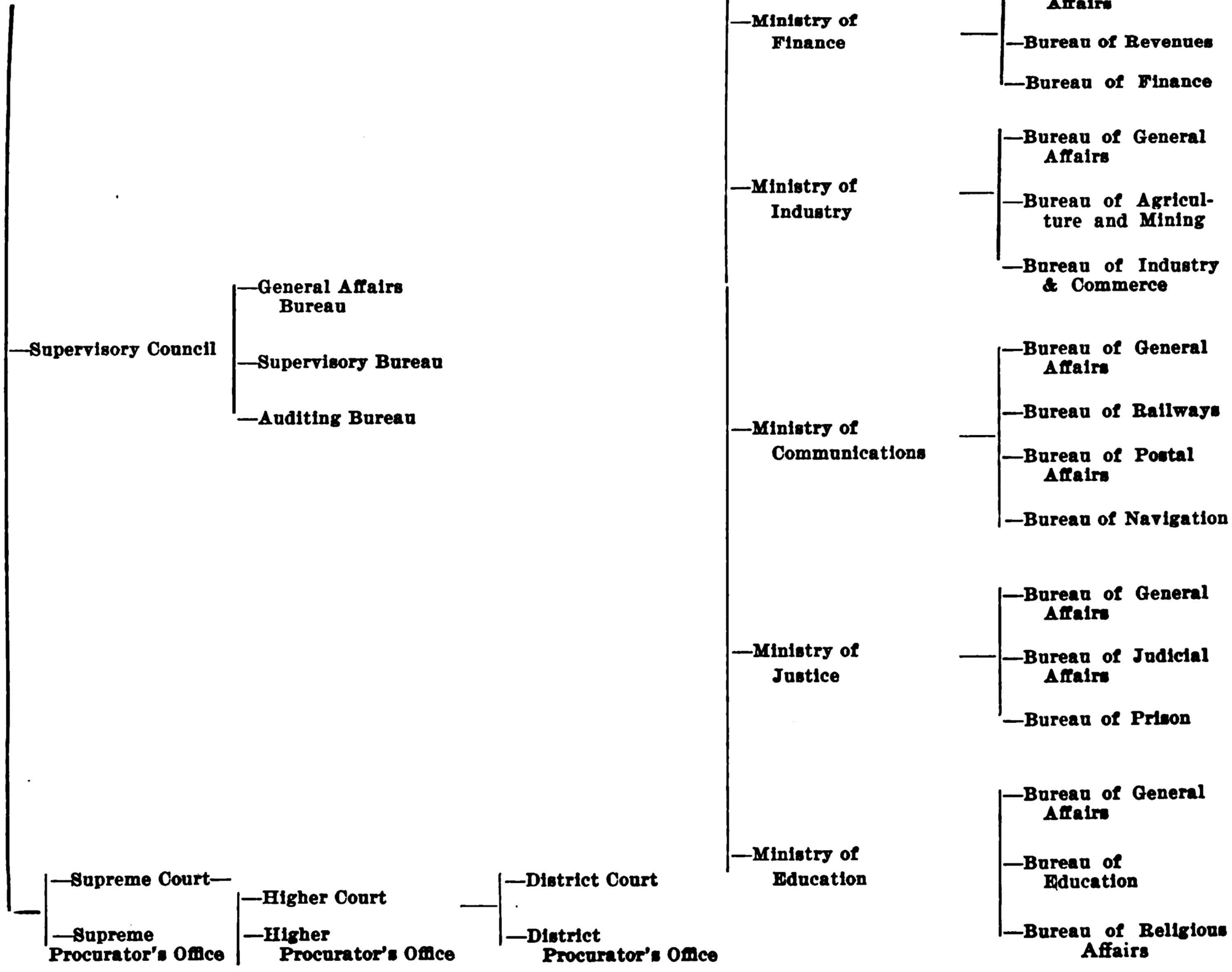

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The Law Guaranteeing Civil Rights

[Promulgated on March 9th, 1932—
First year of Ta-tung]

The Chief Executive, who exercises the administrative power over the State of Manchukuo and who is entrusted with the faith and confidence by the entire people of the State, hereby pledges to give the people, except in times of war and of extraordinary circumstances, the guarantee of liberty and rights and to determine duties of the people in accordance with the provisions hereinafter set forth:

Art. 1. The liberty of subjects of the State of Manchukuo shall not be infringed upon, and their restrictions by the public authorities shall be provided for by law.

Art. 2. The property rights of the subjects of the State of Manchukuo shall not be infringed upon and their restrictions by necessity for public welfare shall be provided for by law.

Art. 3. The subjects of the State of Manchukuo shall be given equal protection by the State irrespective of race and faith.

Art. 4. The subjects of the State of Manchukuo shall, according to the provisions of law, have the right to participate in the affairs of the government or of the local organizations.

Art. 5. The subjects of the State of Manchukuo shall, according to the provisions of the law, have the right to be appointed to governmental offices and others are obliged to assume honorary positions.

Art. 6. The subjects of the State of Manchukuo may present petitions in accordance with the prescribed procedure provided for by law.

Art. 7. The subjects of the State of Manchukuo shall have the right to be tried by the judges of the court in accordance with the law.

Art. 8. In case the rights of the subjects of the State of Manchukuo are violated by unlawful decisions of the administrative offices, a remedy may be

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sought for in accordance with the provisions of the law.

Art. 9. The subjects of the State of Manchukuo shall not be subjected to any taxation or imposition of penalty under any names unless provided for by law.

Art. 10. The subjects of the State of Manchukuo may protect and promote their economic interests and rights by means of cooperative organizations as long as they are not prejudicial to public welfare.

Art. 11. The subjects of the State of Manchukuo shall be protected against all forms of practices for excessive profits as well as other unlawful economic oppressions.

Art. 12. The subjects of the State of Manchukuo shall have the right to enjoy privileges of various establishments and institutions built by the public funds of the government or of the local organizations.

Art. 13. This law shall come into force on the Ninth of March, the First Year of Ta-tung [1932].

The structure of government in Manchukuo then follows traditional Chinese characteristics, with modifications for greater effectiveness.

The Structure of Government

The country is divided into four provinces, namely, Fengtien, Kirin, Heilungkiang and Jehol, and the Special District of Harbin. Jehol has been a part of Manchuria politically for almost a decade. Economically and geographically, the four provinces naturally constitute one unit. Under the old regime they were called the Four Northeastern Provinces and placed under one administration. Harbin is a special district because its importance singles it out as a separate entity; yet it is not large enough to be a distinct province. This political sub-division of special districts is quite current in Chinese political organization, Peking, Shanghai and other large cities being so designated.

At the head of each of these divisions is a Governor, who functions in accordance with the habits of the

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country. No attempt has been made to reorganize the political complexion of the provincial governments because it is realized that this must be a slow process involving a gradual development of the people in the direction of democratic institutions. Nevertheless, it is the purpose of Manchukuo to modernize not only the provincial governments but also the municipal and village governments. Instead of revolutionary proclamations which remain only words on paper, Manchukuo seeks to accomplish change by the more practical method of training young men to be prepared for public service and by the employment of competent experts and advisers.

The national government is organized as follows:

1. The Chief Executive, who is guided by a Privy Council, which consists of the principal men of the state.

2. A State Council;

A Legislative Council
A Supervisory Council
A Supreme Court
A Supreme Procurator's Office

3. Under the State Council which is presided over by the Premier are the Ministries: Home Affairs, Foreign Affairs, Defense, Finance, Industry, Communications, Justice and Education. There are a few detached bureaux and much has been made by Chinese propagandists and foreigners ignorant of Chinese political organization, of the Board of General Affairs. Every Chinese Ministry has such a bureau. It is the routinizing agency of the Ministry. It so happens that the Director of this Board during the early days of the organization of the Manchukuo Government was Tokuzo Komai, a Japanese, who had lived in Manchuria for about twenty years and who had been employed by the Manchukuo Government in the emergency because of his experience in the country and his knowledge of its economic conditions.

In connection with this structure of government, it is important to note that traditional tendencies have been followed, but simplified. The objective, as already stated, is to accomplish improvements on the existent

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structure but not to employ revolutionary methods which disturb the peace of the people.

Japanese Advisers

It is here important to note the fact that the presence of Japanese or other advisers in the Manchukuo Government presents no unusual feature. It is estimated that more than 2,000 foreigners are in the employ of the Chinese Government at the present time, some of whom are Japanese. The Nanking Government employs foreigners as experts in almost every Ministry. The Chinese Maritime Customs and Salt Administrations use foreigners in key positions, the Inspector-General of the Customs being a British subject, the Director of the Salt Administration being an American.

It is only natural that during the transitional period between the traditional Chinese administration and a modernized administration, foreigners of experience should be employed. Marshal Chang Hsueh-liang's closest adviser, for instance, is an Australian. Manchukuo, recognizing the need for experts, has been employing a large number of foreigners, most of whom are Japanese just as most of those employed by the Nanking Government are British. There can be no reason, however, why advisers and experts of other nationalities should not be employed by Manchukuo, after that Government has been recognized. As a matter of fact, George Bronson Rea, an American citizen, who has held high office under the American Government during the Great War, is Councillor to the Ministry of Foreign Affairs and A. H. F. Edwardes, a British subject and formerly Inspector-General of the Chinese Maritime Customs, has recently been appointed a political adviser to the Manchukuo Government.

Personnel of Manchukuo

In the following list of the present personnel of Government in Manchukuo, an asterisk (*) is placed before the name of an official who held high office during the old regime, and a dagger (†) before the name of an official who holds the same office today as he held under

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the old regime. It is important to note the large number of officials who held over to disprove the usual charge that Manchukuo is a puppet government. It is rather a union of Chinese officials who did not run away, who remained in Manchuria to protect their own people and to do their duty during and after the events of September 18-19, 1931. They represent the independent Chinese officials who found the government of Chang Hsueh-liang antagonistic to the interests of the people of Manchukuo.

Chief Executive‡	**Pu-yi**
Chief Aide-de-Camp	*Chang Hai-peng
Chief of the Secretariat	Hu Tzu-yuan
State Council	
Premier	**Cheng Hsiao-hsu**
Chief Secretary of the Cabinet	Cheng Chui
Chief of General Affairs Board	Kiichi Sakatani
Minister of Home Affairs	*Tsang Shih-i
" " Foreign Affairs	*Hsieh Chieh-shih
" " Defense	*Chang Ching-hui
" " Finance	*Hsi Hsia
" " Industry	*Chang Yen-ching
" " Communications	*Ting Chien-hsiu
" " Justice	*Feng Han-ching
" " Education	Cheng Hsiao-hsu
Governor of Fengtien Province	†Tsang Shih-i
" " Kirin Province	†Hsi Hsia
" " Heilungkiang Province	Han Yun-chieh
" " Special District of Harbin	†Chang Ching-hui
" " Jehol Province	†Tang Yu-lin

Privy Council
Members:
*Chang Ching-hui (President)
*Tang Yu-lin (Vice-President)
*Chang Hai-peng
*Yuan Chin-kai
Lo Chen-yu
Kuei Fu
*Cheng Chih-yuan
Kumashichi Tsukushi
Tokuzo Komai

President of Legislative Council	*Chao Hsin-po
President of Supervisory Council	(Vacant)
President of Supreme Court	Lin Chi
Supreme Procurator	*Li Pan

III. ECONOMIC CONDITIONS

Money and Taxes

The people of Manchuria, under the Chinese regime, suffered most from two evils, the lack of uniform currency and high taxation. It was the objective of the

‡ Further reference to these officials appears in the appendix.

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old regime to utilize the currency as a means of profit for the officials rather than as a medium of distribution.

The currency consisted principally of unsecured paper money of constantly depreciating value. Yet, the officials of the old regime maintained storage and transportation companies which bought the crops of the people in this paper currency and sold them to foreign purchasers in gold and silver. Thus, the masses had only paper, while the officials enjoyed great wealth deposited abroad.

In the Report of the Kemmerer Commission to the Chinese Ministry of Finance, dated November 11, 1929, the following comment appears on the currency of Manchuria:

"In Manchuria, the Fengpiao, the Kirin tiao notes and the Heilungkiang tiao notes, as well as the Harbin and Kirin dollar notes, have made the Manchurian currency probably the worst in all China. These paper notes are practically all issued by provincial banks, and are all badly depreciated. The Fengpiao circulates at a rate of about 50 dollars to the 'big dollar,' the Kirin tiao notes at about 200 tiao to the 'big dollar,' the Hielungkiang tiao notes at about 400 to the 'big dollar,' and the Harbin and Kirin dollar notes at about $1.40 to the 'big dollar'. . . .

"In several other provinces paper money issued either by a government controlled bank, or by a so-called currency bureau, is in circulation, but in no place has this paper money so demoralized the situation as has the paper money in Manchuria and the Southwestern provinces.*

"In the [class of foreign currencies in Manchuria] fall the gold yen notes and the silver yen notes of the Bank of Chosen and the Yokohama Specie Bank, respectively. The circulation of these notes is principally in the Liaotung leased territory and the South Manchurian Railway zone. The gold yen notes are redeemable in gold or in notes of the Bank of Japan at the option of the bank, and circulate at approximately the value of the Japanese yen, which at present (October, 1929) is a little below its gold par. The silver yen notes are redeemable in silver yen or the equivalent, and circulate at practically the same value as the Chinese silver dollar."†

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* Project of Law for Gradual Introduction of a Gold Standard, etc.," p. 59,

† Ibid, p. 61.

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The following is a list of notes issued in Manchuria, which is taken from the same report:*

Province and City	Notes Issued by	
	Provincial Banks and Governmental Currency Bureaus	Other Modern Chinese Banks
Heilungkiang Entire province	**Harbin Dollar Notes** Heilungkiang Provincial Bank, Bank of Three Eastern Provinces. (Notes about 70% of par.) **Heilungkiang Tiao Notes** Heilungkiang Provincial Bank (Notes badly depreciated.)	**Harbin Dollar Notes** Bank of China, Bank of Communications. (Notes about 70% of par.)
Note. The Harbin Dollar Notes circulate principally along the Chinese Eastern Railway Line; the Heilungkiang Tiao Notes principally in the country districts.		
Kirin Changchun	**Harbin Dollar Notes** Bank of Three Eastern Provinces (Notes about 70% of par.) **Kirin Tiao Notes** Kirin Provincial Bank (Notes badly depreciated.)	**Harbin Dollar Notes** Bank of China, Bank of Communications (Notes about 70% of par.)

* Ibid, p. 195.

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Province and City	Notes Issued by	
	Provincial Banks and Governmental Currency Bureaus	Other Modern Chinese Banks
Kirin (Continued) **Harbin**	**Harbin Dollar Notes** Bank of Three Eastern Provinces, Heilungkiang Provincial Bank (Notes about 70% of par.)	**Harbin Dollar Notes** Bank of China, Bank of Communications (Notes about 70% of par.)
Kirin	**Kirin Tiao Notes** Kirin Provincial Bank (Notes badly depreciated.) **Kirin Tiao and Kirin Dollar Notes** Kirin Provincial Bank (Tiao Notes are badly depreciated; Dollar Notes are about 70% of par.)	
Liaoning (Fengtien) Shenyang (Mukden) and most of province	**Fengpiao** Bank of Three Eastern Provinces (Notes badly depreciated.) **Copper Notes** Kung Tsi Bank	**Fengpiao** Bank of China, Bank of Communications (Notes badly depreciated.)

Note. The Harbin Dollar Notes circulate principally along the Chinese Eastern Railway Line; the Kirin Tiao Notes principally in the country districts.

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It is obvious that a currency system of this nature could only lead to confusion and poverty. During 1930 and 1931, conditions became unbearable as the government of Chang Hsueh-liang required increasingly large sums of money to finance its military establishment and its political adventures inside the Great Walls.

In Study No. 5 of the Lytton Report, the following statement opens the subject:

"There are few provinces of China in which the currency chaos matches that to be found in the North-Eastern Provinces. Not only does one here find that each of the three provinces has its own peculiar—but not always mutually exclusive—currencies, but also that various cities in even the same province have theirs, and that any one of the currencies may fluctuate violently and enormously with respect to almost any and all of the others. In addition to the officially authorized Chinese and foreign currencies, there are domestic and foreign *monies of account*, such as the several *taels* and Customs *gold unit*, and the Russian *roubles* and other foreign monies. Even the token monies and notes of local exchange shops and distilleries, particularly in the villages and district towns, help add to the confusion."*

No better statement of the sufferings of the Manchurian people can be found than in the conclusions of this study:

" . . . The provincial officials without question fearfully exploited the farmers, and did it largely by the emission and manipulation of *tiao* and *Fengpiao* notes in connection with produce-buying operations. It is quite possible that the provincial authorities did not *intend* to exploit the farmers, but the fact that they did exploit them is incontrovertible. The steady depreciation and seasonal manipulation of the tiao and Fengpiao (until most recently) are the proof.

"The exploitation of the farmer resulted not so much from the official purchase of produce with practically costless inconvertible notes as it did from the failure of the banks adequately to contract the issues after the crop-moving season. The officials were always reluctant to part with "good" money or exchange (which they received for the produce they sold) to buy back much of the currency they issued in the purchasing of produce. Consequently, as time went on, the total circulation swelled and the purchasing power of the *tiao* and *Fengpiao* dwindled accordingly. It is from this more or less steady depreciation that the farmer suffered and not so much from the fact that the currency he received was irredeemable. If his currency had not depreciated even though it had remained inconvertible, he would have suffered far less.

* Lytton Report, Supplementary Documents, p. 138.

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"The farmer suffered not only from the more or less steady decline of the *Tiao* and *Fengpiao*, but from their seasonal fluctuation as well. While the currencies constantly tended toward worthlessness, they did so in a wave-like manner, appreciating during the bean-buying season and depreciating after it. During the bean-buying season, the demand for *Fengpiao* and *tiao* was brisk and the exchange rates against them high; after the beans were sold, the demand for currency slackened and the exchange rates against them dropped. At such times, the currencies were used by the farmers or workers to buy goods; or were sold back to the banks for "good" monies (wanted in part for hoarding and in part for remitting purposes), and for drafts and money orders to friends and relatives in other parts of China.

"The process is well decribed by Mr. E. Kann, an eminent authority on Chinese currencies. He describes the operation as follows:

"'. . . The Government-controlled banks have been commissioned to purchase inland produce (chiefly soya beans) and pay the farmers in *tiao* notes. Often advances in paper notes have been made in early summer, when the farmers are usually hard-up, thus ensuring the delivery to the banks of the autumn crops. In autumn, when the farmers come to town to buy necessities of life, flooding the market with those tiao notes, there is invariably a heavy drop in the market quotation of the *tiao* notes, a practice which repeats itself from year to year, bringing the quotation to ever-increasingly lower levels. The loss caused by this state of affairs has been reliably estimated to amount to 25 dollars per annum per head in the total population of North Manchuria. At least 10 per cent of a farmer's annual expenditure in North Manchuria has to be devoted to the loss caused by the steady depreciation of the *tiao* notes. In South Manchuria (Mukden province) the state of affairs has been much worse during recent years.'

"The author is unacquainted with any instance in recent times where a Government has so ruthlessly, systematically and over so long a period of time exploited and taxed its own peoples in such a disgraceful manner as have the former Manchurian officials, with the partial exception of those in Liaoning most recently. The disgrace was all the greater because the burden was imposed on those least able to bear it and because practically nothing was given in return for what was taken. In short, it was nothing but monstrous official robbery, the extent and effects of which it is difficult to appreciate."*

Unbearable Taxation

As regards taxation, the situation was even worse, for taxes were levied on almost everything and the

* Lytton Report, Supplementary Documents, p. 159.

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people suffered frightful hardships. In Study No. 4 of the Lytton Report, dealing with this subject, the following appears:

"As Old China lacked unity and centralization in every field of State administration, so it lacked unity in its financial organization. From the financial point of view, each governor was responsible for the finances of his own province, and only owed to the Emperor a certain contribution. How he collected the money for the needs of his province and for the imperial contribution was a matter of local custom. Moreover, there was no distinction between the public finances of the province and the governor's private finances. If he was a capable administrator—and there have been several governors of this type in Chinese history (one example .was Wang Yung Chiang in Mukden Province, 1917-1925), he would approximately balance revenue and expenditure and see to it that the people were not overtaxed. If he was not, the financial affairs of the province were conducted in a haphazard way and gave rise to all kinds of abuses. There was no proper budget system nor did there exist a proper system of assessment and collection. Further, the practice of collecting taxes according to the "contract" system existed on a large scale, and besides that, owing to the absence of a properly unified budget system, it was a general habit to levy taxes of a temporary nature for local and "special" purposes. These latter taxes were not based on proper regulations, nor was there effective control over the way they were levied. Even the rate might vary according to the circumstances or to the whim and needs of the person levying them. There was no clear distinction between 'duties' and 'taxes' and often there was no proper nomenclature of commodities. The taxation system was so unwieldy that frequently the larger portion of taxation revenue was used to defray the costs of collection. Finally, it often happened that military authorities covered their financial needs by imposing tributes in an absolutely arbitrary manner. Since the revolution of 1912 and especially since the establishment of the National Government, serious attempts have been made to put an end to this situation, and more in particular to the 'contract' system, by paying adequate salaries to officials and by the introduction of proper fiscal and budgetary methods. At the time of the enquiry these attempts had not yet met, in Manchuria at least, with considerable success."*

Concluding on this subject, the Report stated:

"When, in September, 1931, the Sino-Japanese dispute now under investigation came to an outbreak in Mukden, the conditions of public finance in the Manchurian Provinces were essentially similar to those of China proper. The only difference was that since the financial reform plans promulgated by the National

* Lytton Report, Supplementary Documents, p. 123.

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Government at Nanking, in 1928, certain provinces under the immediate control of the Government were probably in a more advanced stage of financial re-organization than those of Manchuria, which, up to the end of the same year, had remained aloof from the revolution and where the practice of local autonomy was even stronger than in other parts of the Republic.

"Nevertheless, the new official regulations did apply to the North-Eastern Provinces and some attempt was made to put them into practice. Beneath the surface, however, old conditions—in the form of an endless number of varying duties and taxes without system and very often without any economic justification, arbitrarily assessed and collected—still prevailed.

"The same applied to the way in which the public money, once collected, was spent. There was no proper budget system, no treasury accounts, and no effective control or audit. As is shown in the comparison of the figures available, it is impossible to get any clear idea of the financial situation of the North-Eastern Provinces.

"The revenue of the three provinces, without counting the local and miscellaneous taxes (the total revenue of which has apparently escaped any evaluation) varies from $81,000,000 to $113,000,000 Mexican in 1929, while the expenditure figures vary from $62,000,000 to $144,000,000 in the same year. There seems to have been a deficit as between revenue from taxation, and expenditure, but even this is not certain, as is evidenced by the different conditions shown in the available statements—deficit, surplus, and balance. However, certain practices such as 'forced loans,' use of revenue from railways, mines, and public utilities, and the issue of inconvertible currency make it likely that there was expenditure which could not regularly be covered by revenue from taxation. A general feeling prevailed in the provinces that expenditure was too high as compared to the country's economic strength, and in particular that the amounts spent for military purposes (approximately 80 per cent. of the total expenditure) was excessive."*

The following is a list of taxes taken from the Lytton Report which originated in the Year Book of the North Eastern Provinces, 1931:†

A. NATIONAL TAXES

1. Production tax—grains	1-2	per cent. ad valorem
other goods	3	" "
2. Sales tax	4	" "
3. Bean tax	5	" "
4. Food-oil tax	5	" "
5. Ginseng tax	5.5	" "
6. Tobacco tax	11	" "
7. Wine tax	11.	" "

* Lytton Report, Supplementary Documents, p. 130.
† Lytton Report, Supplementary Documents, p. 132.

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National Taxes, *continued*

8. Wood tax	7.26	"	"
9. Silk tax	4.2	"	"
10. Mine tax	5	"	"
11. Import duties on goods from Korea	5	"	"
12. Mongol Salt tax—5 yuan per 100 catty			
13. Fines (not over 5 times the tax rate)			
14. Special wine tax	20	"	"
15. Fines from special wine tax.			
16. Likin.			
17. Machine-made foreign goods tax	5	"	"
18. Coal tax			
19. Match tax	15 cents per box		
20. Cigarette tax			

B. PROVINCIAL TAXES

1. Land taxes—first-grade land	15	cents per mu	
second-grade land	11	"	"
third-grade land	6.6	"	"
sandy land	3.3	"	"
2. Title deeds tax	4-6 per cent. ad valorem		
3. Administrative fines and police fines.			
4. Wine and tobacco license fee	2-8 yuan		
5. Gold and silver license fee	5-1,000 yuan		
6. Scissor tax (for raising wild silk worms)	$10-$20 each		
7. Pawnshop tax	$50-$100 per year		
8. Additional tax on wine and tobacco	20 per cent.		
9. Cattle tax	6	"	ad valorem
10. Sulphur tax	2	"	"
11. Ship tax	$2.50 each year		

C. LOCAL TAXES

1. Land taxes:			
(a) first-grade land	14.6	cents per mu	
(b) second-grade land	14	"	"
(c) third-grade land	13.4	"	"
(d) sandy land	6.7	"	"
2. License tax on cars:			
(a) car using more than 4 animals	8	dollars	
(b) car using more than 3 animals	5	"	
(c) car using more than 2 animals	3	"	
(d) car using less than 2 animals	1	"	
3. Miscellaneous taxes:			
(a) Butchery tax—for sheep	0.50	dollars per month	
for hogs	1.00	"	"
for cattle	4.00	"	"
(b) Meat tax—for sheep	0.50	"	"
for hogs	1.00	"	"
for cattle	2.00	"	"
(c) Business tax	0.1-0.4 per cent.		
4. License fee for retailer's stands	0.20-2.00	dollars	
5. Prostitution tax	1.00-4.00	"	
6. House tax	0.20-0.50	"	
7. Tax on grain	0.05-0.10	"	per ton
8. Theatre tax.			
9. Advertisement tax.			
10. Market-place tax	0.30-0.40	"	
11. Scissor tax	3.00	"	per year
12. Carriage tax	1.00-2.00	"	
13. Silkworm basket tax	0.20-0.30	"	each

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14. Rickshaw tax ..... 0.50-0.60 "
15. Sedan tax ..... 1.00 "
16. Garden tax ..... 0.10-0.20 " per mu
17. Brokers' tax ..... 0.50-0.60 "
18. Cattle intestine tax ..... 5-6 per cent. ad valorem
19. Blood and hair tax (each hog) ..... 0.30-0.50 dollar
20. Bridge tax.
21. Fur tax ..... 2-3 per cent. ad valorem
22. Fish tax ..... 1.5-2.2 per cent. ad valorem
23. Korean capitation tax ..... 4.00-10.00 dollars
(Each family-year.)
24. Wood tax.
25. Mountain products tax.
26. Cattle tax ..... 0.30-0.40 dollar each year
27. Ginseng tax ..... 3-3.6 per cent. ad valorem
28. Household tax ..... 20-190 dollars each year
29. Bean tax ..... 0.10 dollars per ton
30. Ship tax ..... 0.05 dollars per ton or
1.00-2.00 dollars per boat
31. Automobile tax ..... 1.00-6.00 each year
32. Coal tax.

The Budget for 1930, of Manchuria, under the old regime for the Year 1930, taken from the same report follows:

REVENUE

	(Mexican dollars)	
Production taxes:		17,212,904
Production tax	10,485,295	
Bean tax	3,186,784	
Oil-plant tax	206,756	
Ginseng tax	40,966	
Wood tax	2,022,959	
Cocoon tax	321,287	
Mineral tax	948,857	
Consumption taxes:		67,502,089
Salt tax	45,884,301	
Tobacco and wine monopoly fee	1,396,323	
Cigarettes tax	5,360,355	
Tobacco and wine tax	2,969,027	
Special wine tax	35,786	
Nitre tax	202,024	
Consumption tax	11,654,273	
Miscellaneous taxes:		5,537,437
Tobacco and wine license tax	184,330	
Live-stock tax	2,701,364	
Carriage license tax	694,788	
Stamp tax	1,956,955	
Fees:		3,373,254
Contract tax	2,811,663	
License tax	239,271	
Various fines	322,320	
Revenue from Provincial enterprises		715,048
Miscellaneous revenue		19,101,905
Total revenue		113,442,637

EXPENDITURE

Finance	18,867,717	(13.1 per cent.)
Army	98,554,951	(68.3 " ")

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Foreign Affairs	206,126	(0.1	"	")
Education	4,703,080	(3.3	"	")
Home Affairs	5,606,826	(3.9	"	")
Judicature	1,395,561	(0.9	"	")
Construction	339,251	(0.2	"	")
Agriculture and Commerce	154,240	(0.1	"	")
North-Eastern Political Committee	700,500	(0.5	"	")
Unforeseen	13,700,553	(9.6	"	")
Total Expenditure	144,228,805			

Yet when this is compared with the Revenues of the Finance Department of Fengtien Province for 1928, the confusion becomes more apparent. It should be noted in both these statements, how altogether out of proportion are the military expenditures:*

Revenue

	Mexican dollars	
Land tax	5,750,249	
Production	58,990,710	
Beer	93,410,291	
Food oil	7,004,366	
Sales	199,135,882	
Wood	22,643,411	
Silk	5,766,459	
Duties on goods from Korea	114,770	
Foodstuffs	895,629	
Ship	121,933	
Foodstuff ship	144,105	
Fish	1,305,992	
Title deeds	35,458,751	
Mine sand	64,831	
Coal	9,642,025	
Bills	5,025,938	
Wine	33,834,269	
Wine license	2,114,654	
Tobacco	7,506,601	
Tobacco license	2,008,802	
Fishery	2,016,820	
Scissor	814,985	
Total revenue from taxes		494,771,377
Sales of public properties	305,992	
Rents from public properties	438,902	
Public property certificate charge	386	
Total revenue from public properties		745,280
Balance from land tax expenses	396,879	
Receipts from bills and certificates	11,196,393	
Receipts from the courts	7,178,354	
Judicial receipts of the hsiens	10,537,444	
New certificate charge	28,215	
Foodstuff ship fee	81,918	
Fines	4,056,646	
Special land tax for self government	1,001,797	

* Year Book of North-Eastern Provinces, 1931.

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Total miscellaneous receipts	34,477,646
Funds from public sales bureau	10,498,807
Grand total of revenues	540,493,110

Expenditure

	Mexican dollars
Diplomatic expenses	2,918,663
Internal affairs expenses	79,313,763
Financial administration expenses	63,043,314
Military expenses	429,623,819
Judicial expenses	24,816,776
Educational expenses	40,577,878
Agricultural and commercial expenses	2,747,540
Construction expenses	11,197,858
Total expenditure	654,239,611

Fiscal Plans and Accomplishments

It is the plan of the Manchukuo Government to standardize, simplify, and modernize the fiscal system of Manchukuo. From the very beginning of its existence the Manchukuo Government devoted itself to Monetary Reforms.

A Central Bank was organized and opened on July 1, 1932, with a capital of 30,000,000 yuan which was soon increased to 80,000,000 yuan. It was authorized to issue the new national currency and to withdraw from circulation the varieties of currency employed by the former regime at a fixed rate of exchange.

Up to the middle of November, 1932, 47,782,000 yuan of the old provincial bank-notes were redeemed in exchange for the national currency. The rates of exchange remain as fixed by the decree issued by the Department of Finance on June 28, 1932.

The monetary condition of Manchukuo stands as follows:

1. Total amount of notes issued by the Central Bank of Manchukuo (the National Currency)—32,304,-000 yuan.*
2. Total amount of recognized notes outstanding (old and new)—126,756,000 yuan.
3. Amount of gold and silver reserve at present (November 10, 1932)—66,550,000 yuan.

* The yuan is the basic unit of the national currency of Manchukuo. It contains 23.91 grams of pure silver and is roughly equivalent to the so-called Mexican silver dollar.

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Ratio of the specie reserve to the outstanding notes—53 per cent.

4. Amount of securities held against note issue—58,816,000 yuan. Ratio of this "security reserve" to the outstanding notes—47 per cent.

The interest rate on deposits in the old Provincial Banks of Fengtien and Kirin was between 1% and 1.6% per month, and that of Heilungkiang between 1% and 2% per month. Most of the depositors were influential Government officials. The interest rate on loans was 1.2% to 2% per month. High rates were charged on loans to merchants, while lower rates or no interest was charged on loans to Government officials.

The Central Bank of Manchukuo has already fixed the interest rate on deposits from the maximum of .6% to the minimum of .15% per month, and the rate on loans from the maximum of around 1% to the minimum of .85% per month. As compared with the interest rates on deposits and loans charged by the former government banks of the three provinces, the rates of the Central Bank are nearly half of the former rates. Furthermore, the interest rates on the old loans contracted by merchants previous to Spetember 1, 1932, were all reduced to one-third of the former rates, and the obligations of government officials are being strictly regulated.

Customs, Salt Gabelle, Postal and Telegraphic Service

In June, 1932, the Manchukuo Government took over control of the Customs from the Chinese Maritime Customs, J. Fukumoto, who had been the Commissioner of Customs at Dairen, being retained in the same position. No changes were made in the system of administration and very few changes were made in personnel so that the transfer and the subsequent management of the customs involved no administrative disturbances.

Under the old regime, the Salt Administration in the Three Eastern Provinces had become confused and the revenue was actually collected by local officials in their own interest rather than for the benefit of the

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state. The Salt Gabelle has now been completely consolidated and reorganized. Manchukuo's share of the Salt Gabelle pledged to secure China's foreign loans is set aside as a special reserve with the object of settling with each creditor nation by direct negotiations. In this connection, it is important to note that Manchukuo assumes full responsibility for its share of China's foreign obligations.

The postal system is functioning smoothly within the country, although mail to China encounters certain difficulties. Other foreign mails are handled through the Japanese post offices or other media.

The telegraphic system has been improved by Manchukuo, and is operating more satisfactorily except for overland communication with China.

Taxation in the Three Eastern Provinces, under Chang Hsueh-liang, as has already been indicated, were so high and so improperly and unjustly collected, that steps had to be taken immediately to lighten the burdens of the people—even before an integrated and scientific system of taxes could be arranged. The changes already made are in the direction of abolishing and reducing the most onerous and obnoxious taxes.

BUDGET OF MANCHUKUO
For First Year of Tatung
(Fiscal Year July 1, 1932, to June 30, 1933)

REVENUE

1—ORDINARY

Taxes and Duties	In Yuan (silver dollar)	
Customs Tariff	40,460,000	
Salt Gabelle	16,814,000	
Land Tax	2,955,000	
Production Tax	6,213,000	
Trade Tax	3,694,000	
Deed Tax	1,445,000	
Tobacco and Wine Taxes	2,069,000	
Universal Tax	7,172,000	
Stamp Duty	1,954,000	
Miscellaneous	2,592,000	
Total		85,378,000
Income from Government Monopolies and Enterprises		
Income from salt monopoly in Kirin and Heilungkiang Provinces	4,362,000	
Income from opium monopoly	5,000,000	
Others	269,000	

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Total		9,631,000
Miscellaneous Revenue		2,377,000
Total ordinary revenue		97,386,000
2—EXTRAORDINARY		
Income from sale of public properties	155,000	
Miscellaneous income	1,372,000	
Manchukuo's share of income from the Chinese Eastern Railway	2,104,000	
Bond issue	12,291,055	
Total extraordinary revenue		15,922,055
Grand Total Revenue		113,308,055

EXPENDITURE

	In Yuan (silver dollar)	
1—ORDINARY		
Chief Executive's Office	1,150,000	
Privy Council	197,669	
Legislative Council	256,322	
Supervisory Council	362,506	
General Affairs Board	980,117	
Provincial Administration	12,000,000	
Reserve Fund	15,000,000	
Tatung Institute; Legislative Bureau, Capital Construction Bureau, etc., etc.	8,868,083	
Hsingan General Bureau*	1,012,030	
Ministry of Home Affairs	4,168,175	
Ministry of Foreign Affairs	666,892	
Ministry of National Defence	30,000,000	
Ministry of Finance	24,458,243	
Ministry of Industry	434,589	
Ministry of Communication	1,547,825	
Ministry of Justice	3,108,126	
Ministry of Education	271,511	
Total		104,482,088
2—EXTRAORDINARY		
Building and Repairing	2,500,000	
Road Improvement	290,000	
Relief	1,787,600	
Other Miscellaneous Expenses	455,917	
Ministry of Finance	662,400	
Ministry of Defence	3,000,000	
Ministry of Home Affairs	116,200	
Ministry of Communication	13,850	
Total		8,825,967
Total Expenditure		113,308,055

It will be noted that the expenditures for military purposes have been reduced considerably and it is to be expected that as soon as peace is restored, it will be possible to reduce this item still further.

* This Bureau is in charge of the affairs of Mongols living within the boundaries of Manchukuo.

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The extraordinary expenses of establishing the new state, founding a Central Bank, stabilizing currency, reorganizing administration, etc., involve extraordinary expenditures which cannot be covered by the ordinary Budget. The Manchukuo Government has been able to make the following loans:

Loans

At the beginning of May, 1932, a loan of 20,000,000 yen was extended by a syndicate of Mitsui and Mitsubishi, the two leading financiers of Japan, to Manchukuo to be used by its Central Bank as a basis for note issue.

For the purpose of financing road building, for reconstructions in the areas affected by the North Manchurian flood and for the improvement of police system, which are essential for the speedy restoration of peace and order, the Government of Manchukuo has recently floated a loan of 30,000,000 yen in Japan. The contract for the flotation of the bonds was concluded between a syndicate of Japanese banks and representatives of Manchukuo on November 19, 1932.

The bonds are offered at 96.50 yen with 5 per cent. interest per annum. They are not redeemable for two years, after which they are to be amortized in five years by annual installments selected by lot-drawings (first year 2,000,000 yen; second year 4,000,000 yen; third year 6,000,000 yen; fourth year 8,000,000 yen; fifth year 10,000,000 yen).

The loan is secured by the Government income derived from the salt monopoly in the Provinces of Kirin and Heilungkiang and by some other revenues. The income from the salt monopoly is entirely independent of the salt gabelle by which previous foreign loans are secured.

Settlement of Claims Incurred by the Previous Regime

Public obligations of the former Manchurian regime of Chang Hsueh-liang which were incurred for purchase of goods on credit or for similar services have been left unpaid since its fall in September, 1931. The Government of Manchukuo has received about 1100 such

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claims by creditors including nationals of Great Britain, the United States, Japan, France, Germany, Austria, Switzerland, Holland, Czechoslovakia, Norway, Sweden, China, and Manchukuo. The total amount of these claims amounts to about 12,000,000 yuan.

By appointing a special committee, the Government of Manchukuo had for some time been investigating these claims and studying the equitable basis of settlement. On December 14, 1932, it announced the following plan for liquidating the claims:

1. For claims based on contracts concluded after January 1, 1930, under which goods have already been delivered (about 7,110,000 yuan in total), a sum of 2,500,000 yuan in cash will be distributed proportionately among all the creditors during the current year, and 1,500,000 yuan in cash during the next year. The balance will be paid in twenty-year government bonds, each bearing a face value equal to the balance due to each creditor and 3% interest per annum.

2. Claims arising from contracts concluded before the end of 1929 or claims based on goods undelivered (about 5,000,000 yuan in total) will be decided reasonably after careful investigation and paid in twenty-year government bonds, each bearing a face value equal to the amount of each claim or each compensation for damage, as the case may be, and bearing 3% interest per annum.

It is clear from the above settlement that the Government of Manchukuo is extending equal treatment to both domestic and foreign creditors regardless of their nationality. By thus assuming full responsibility for the claims incurred by the previous regime, Manchukuo gives evidence of its fairness in the conduct of foreign policy and the soundness of its financial condition.

IV. TRADE AND COMMERCE

Manchukuo inherits a rich land of vast commercial possibilities. It is the agricultural and mineral and commercial possibilities which have made it an objective of international exploitation since it came into the

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orbit of world knowledge after the middle of the nineteenth century. Russia was first among Western peoples to appreciate the value of this virgin area and actually annexed large sections of it to constitute the present Soviet provinces of Primursk and Amursk.

The Chinese did not attempt to develop this country, which was, as a matter of fact, legally closed to them from the Manchu conquest of China to very recent times. In spite of the immigration restrictions upon Chinese, they nevertheless settled the country in large numbers, devoting themselves principally to farming.

Japan entered Manchuria as a direct result of the Sino-Japanese War in 1895. Robbed of the fruits of her military victory by a joint intervention of Russia, Germany and France, Japan was unable to make notable progress in the economic development of Manchuria between 1895 and 1905 especially because of the opposition of Russia, which, at that time, was pursuing an imperialistic policy designed to annex Manchuria to Russia.

Subsequent to the Russo-Japanese War, Japan's investment in the economic development of Manchuria has been the basis for the creation of wealth in that region and has become Japan's principal investment abroad. The South Manchuria Railway, a semi-governmental enterprise, alone represents an investment of nearly Yen 750,000,000.* This includes in addition to the principal railroad of the country, ownership of the principal iron mines and steel plant, the Anshan Iron Work, the leading coal mine, the Fushun Collieries and a large number of other enterprises.

The investments of the South Manchuria Railway in Manchuria do not represent the whole of Japan's investments. In a large number of varied industries and commercial enterprises, including many of a Sino-Japanese character and in the form of loans to the old regime, Japan's investments in Manchuria represent more than Yen 1,715,000,000—the largest foreign interest in the country. The investment of other coun-

* Third Report on Progress in Manchuria, p. 108.

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tries, except Soviet Russia, is trivial. The Lytton Commission, for instance, estimates the American investment at about $4,500,000.*

The growth of the trade of Manchuria and the part that Japan's presence there played in it, may be measured by the fact, that in 1908, one year after the Japanese-leased port of Dairen was opened, the total trade of Manchuria increased from Taels 52,000,000 to Taels 100,000,000, which was 12 per cent of China's total foreign trade. In 1930, the year before the present disturbances, that trade amounted to Taels 700,000,000 or about 22 per cent of China's total foreign trade.†

The principal pay crop of Manchuria is the soya bean, which has been developed as a world commodity through Japanese enterprise. Of a total export of all commodities in 1930, amounting to Taels 397,000,000, Taels 207,000,000 represented the soya bean in all its phases.

Other important products are sorghum (Kaoliang), millet, wild silk (Tussah), cotton, live stock, forestry products, salt, coal, iron, gold, and fishery products.

The policy of the Manchukuo Government with regard to trade and commerce has been stated frequently in public proclamations. It is an enlightened policy having for its objective, the development of trade, commerce and industry. As regards the participation of foreigners in that development, on March 12, 1932, the Minister of Foreign Affairs of Manchukuo in a letter to the Foreign Powers, in which he reviewed the principles underlying Manchukuoan policies, stated: "That with regard to the economic activities of the peoples of foreign nations within the State of Manchukuo, the principle of the Open Door shall be observed." Observance of this principle is borne out by the actual figures for the foreign trade of the new State.

The figures for the foreign trade of the whole country are not yet obtainable. But the port of Dairen, which handles more than half of Manchuria's trade, showed the following increase during the eight months

* Supplement to Lytton Report, p. 205.

† Third Report on Progress in Manchuria, p. 129.

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from March, 1932, when the new regime came to power, as compared with the corresponding period of the preceding year:

	In yuan (silver dollar)	Percentage of Increase
Exports: 1932 March thru October—Total	185,034,000	
1931 March thru October—Total	126,211,000	
Total Increase	58,823,000	46%
Imports: 1932 March thru October—Total	139,538,000	
1931 March thru October—Total	66,508,000	
Total Increase	73,030,000	109%

When the above imports and exports are shown separately (1) by countries and (2) by chief commodities, the figures run as follows:

ALL FIGURES IN YUAN (silver dollar)

(1) By Countries:

EXPORTS

	1931 (Mar. thru Oct.)	1932 (Mar. thru Oct.)	Percentage of Increase
Japan	54,875,000	60,902,000	11%
China	28,067,000	45,926,000	63%
Great Britain	4,873,000	15,910,000	229%
France	635,000	1,562,000	128%
Germany	7,815,000	3,480,000	— 56%
United States	4,347,000	2,872,000	— 33%
Others	25,599,000	54,382,000	112%
Total	126,211,000	185,034,000	46%

IMPORTS

	1931 (Mar. thru Oct.)	1932 (Mar. thru Oct.)	Percentage of Increase
Japan	39,340,000	94,542,000	140%
China	15,632,000	27,508,000	75%
Great Britain	977,000	2,169,000	122%
France	70,000	123,000	75%
Germany	2,682,000	1,752,000	— 34%
Russia	476,000	1,066,000	123%
United States	1,762,000	1,372,000	— 22%
Others	5,569,000	11,006,000	98%
Total	66,508,000	139,538,000	109%

(2) By Commodities:

EXPORTS

Soy-beans	41,214,000	79,214,000	92%
Red-beans	1,690,000	2,150,000	27%
Kaoliang	1,554,000	5,261,000	238%
Peanuts	1,884,000	3,092,000	64%
Bean oil	11,372,000	12,942,000	13%
Bean cake	19,970,000	25,587,000	28%
Cotton yarns	4,011,000	4,214,000	05%
Iron and steel	1,820,000	4,104,000	125%
Hide	1,976,000	2,056,000	04%
Coal	16,957,000	11,549,000	— 31%

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IMPORTS			
Cotton fabrics	8,102,000	20,223,000	149%
Woolen fabrics	1,214,000	2,883,000	137%
Cotton yarns	1,177,000	5,610,000	376%
Cotton	4,182,000	7,968,000	90%
Gunny bags	3,905,000	7,639,000	121%
Wheat flour	3,210,000	7,091,000	120%
Sugar	2,438,000	6,890,000	182%
Tobacco	1,823,000	4,281,000	135%
Petroleum	349,000	966,000	148%
Paper	1,646,000	3,161,000	92%
Iron and steel	1,155,000	2,744,000	137%
Machinery	2,651,000	2,737,000	03%
Drugs and chemicals	2,944,000	3,900,000	32%

Current Trade

These figures show that while the foreign trade of almost every other country was declining, Manchukuo's trade, as represented by the port of Dairen, gained 45 per cent. for export and 109 per cent. for import. This was due to increased purchasing power resulting from relatively peaceful conditions and improved transportation facilities.

The Dairen figures reveal an increase in both exports and imports of the wide range of commodities with the single exception of coal. The export of soybeans and kaoliang (sorgham), the staple products of Manchuria, showed a gain of 92 per cent and 238 per cent respectively. The imports of nine leading goods rose more than 120 per cent. Outstanding import gains were in cotton yarns, 376 per cent; petroleum, 148 per cent; iron and steel, 137 per cent.

Japan remains the largest buyer of Manchukuo's goods, with China second and Great Britain third, but in proportion of increase Great Britain ranks first, her total import from Manchukuo having increased 229 per cent during the eight months. The same three countries led also in exports to Manchukuo, but here Japan led in proportion of increase, with 140 per cent. Great Britain gained 122 per cent and China 75 per cent.

Cotton goods have always constituted the largest item of Manchurian imports. Japanese cotton mills have a double geographical advantage: they are able to produce a much cheaper staple by mixing raw materials of

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American higher grade and those of Indian and Chinese lower grades. Again, the Japanese product has the advantage of a lower cost of transportation on account of the proximity of the market. However, the largest single factor in the rise of Japanese export during this period, not only to Manchukuo but to all other countries, was the sharp drop in yen exchange.

In spite of the boycott movement in China, Chinese merchants were among the principal beneficiaries of the recent developments in Manchuria. During the eight months from March, 1932, China's exports to Manchukuo increased 75 per cent and her imports 63 per cent.

While on these figures the total United States exports to Manchukuo show a decline of 22 per cent, they reveal a remarkable increase for such staples as iron and steel, paper and petroleum. Imports of American machinery have begun to show some increase. A principal factor in the drop in the American total has been the rise of the dollar in terms of yuan and other exchange. Nevertheless, the drop in total for the United States was less than the percentage of decrease in the total exports from the United States to all countries, that decline having been 34 per cent for the ten months ending October, 1932. The fact that imports of American products of general demand have increased, despite the depression and other drawbacks, may well be taken as a promising sign with respect to American trade in Manchukuo.

It is to be expected that as soon as the present period of liquidating bandit activities in Manchukuo is ended, an era of economic developments will be entered upon, with the definite objective of making Manchukuo one of the most prosperous regions in Asia. No one country can enjoy a monopoly of the opportunities afforded by the economic expansion of Manchukuo. No one country can supply all the steel, the machinery, the railroad equipment that will be required. No one country can hope to get all the profits out of shipping, insurance and banking transactions involved in this enterprise. Manchukuo then becomes the new land of promise for all commercial countries—the new land of opportunity for the business men of the world.

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V. COMMUNICATIONS

When it is realized that Manchukuo now represents an area of more than 460,000 square miles and that there are only 3,816 miles of railroad for the entire country, it can readily be seen how poor Manchukuo is in means of communications.

Of the existent mileage, nearly half is owned either by Russia or Japan, that is, the Chinese Eastern Railway is a joint Manchukuo-Russian enterprise, while the South Manchuria Railway and its branches are a Japanese enterprise. Of the lines which are now wholly Manchukuo-owned, a large number represent either Japanese capital investments in the form of loans or even Japanese management according to existing agreements. One Manchukuo line, the Manchurian branch of the Peking-Mukden Railway, represents a British capital investment.

It is evident that this presents a confused system of conflicting authority and management. In fact, it has become difficult to develop the railroads of Manchuria, to plan new lines scientifically, to branch into new fields and open new territory, because this always involves political questions, arising out of the agreements between China and Japan, and the unwillingness of the Chinese to abide by them. In fact, even when the Japanese made concession after concession to Chinese opinion, no understanding between the two countries could be reached because of Chinese unwillingness to sit down to a conference to deal with the entire question of the Manchurian railroads and their future.

The policy of the Manchukuo Government is to unify the country's systems of communication, as far as is consistent with treaty obligations. New lines will be built, not for political but for economic reasons. The completion of the Hsinking-Kainei Railroad, long deferred by the old regime, will give Manchuria another economically strategic port on the Korean Coast.

Among the important new railroads now under construction are:

1. Tunhua-Kainei line (about 200 kilometres).
2. Koshan-Hailun line (about 200 kilometres).

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3. Lhafa-Harbin line.
4. Taonan-Solun line.

This program is only the beginning of a vast development. Cooperating with Japan and even with Soviet Russia, whose interest in the Chinese Eastern Railway is important to the economic life of Manchukuo, the Manchukuo government hopes within a year or two to have a larger railroad mileage than the whole of China—and an infinitely more efficient system.

VI. INTERNATIONAL RELATIONS

Manchukuo, as a new state, has been recognized only by Japan. Although Soviet Russia has not extended to the new country formal recognition, she has acknowledged a *de facto* situation by agreeing to the exchange of consular representation between the two countries and to the succession of Manchukuo to the rights of China in the Chinese Eastern Railway.

No other country has recognized Manchukuo, but all the countries which had consular representation there under the old regime continue to maintain such representation there now. That is, the United States, Great Britain, France, Italy, and many other countries, although they withhold formal recognition from Manchukuo, have not withdrawn consular representation in the area. The consuls deal with Manchukuoan officials as though they were local Chinese officials. This subterfuge is a pure legalism, for actually the important fact is that the business of the day gets done.

On March 12, 1932, Manchukuo, through its Minister of Foreign Affairs, Hsieh Chieh-shih, appealed to the foreign powers for recognition. He stated Manchukuoan principles in connection with its foreign policy to be as follows:*

"1. That the Government shall conduct the affairs of the State according to the primary principle of faith and confidence and the spirit of harmony and friendship, and pledges itself to maintain and promote international peace.

"2. That the Government shall respect international justice in accordance with international laws and conventions.

"3. That the Government shall succeed to those obligations incurred by the Republic of China by virtue of treaty stipulations

* Third Report on Progress in Manchuria, p. 214.

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with foreign countries in the light of the internal laws and conventions and that these obligations shall be faithfully discharged.

"4. That the Government shall not infringe upon the acquired rights of the peoples of foreign countries within the limits of the State of Manchuria, and further that their persons and properties shall be given full protection.

"5. That the Government welcomes the entry of the peoples of foreign nations into, and their residence in, Manchuria and that all races shall be accorded equal and equitable treatment.

"6. That trade and commerce with foreign countries shall be facilitated thus contributing to the development of world economy.

"7. That with regard to the economic activities of the peoples of foreign nations within the State of Manchuria, the principle of the Open Door shall be observed."

Mr. Hsieh further developed the attitude of his government to foreign Powers in a brilliant interview with Mr. Hallett Abend of the **New York Times,*** in which he said:

"There will be no difference between the declarations and the deeds of the government. Just as Manchukuo is faithfully paying Manchuria's share of China's foreign indebtedness, so will Manchukuo observe to the letter the treaty obligations assumed by China when Manchuria was part of that country. This, we feel, is a policy we must scrupulously observe until such time as our government is formally recognized by the rest of the world.

"But even after recognition, if it should come soon, we shall not press for treaty revision until we have first set our own house in order. We wish to win the confidence of the nations of the world before we begin asking favors. Our whole policy is designed to be constructive, conservative, reasonable and based upon common sense. Above all, we shall not follow any policy designed to antagonize the rest of the world, and we realize what Nanking has never understood—that deeds and not words are what count.

"For the present we shall not endeavor in any way to limit the operation of extraterritoriality in Manchukuo, for we realize that we must have a sound code, effective and honest courts, and an able judiciary before the treaty powers will be willing to surrender the protection which extraterritoriality affords to their nationals here."

None of the principal Powers replied to Manchukuo's overtures, but instead adopted a policy of communicating with it through Japanese agencies. This was seriously resented in Manchukuo, its Foreign Office sending the following informative message to Senior Consul Hanson at Harbin:†

* New York Times, May 17, 1932.
† New York Times, July 13, 1932.

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"Please let me know of cases indicating a tendency toward closing the open door. Manchukuo will not be petty and pusillanimous in this declared policy. I point out the tendency of foreign governments to approach the Japanese Government. Henceforth I shall reserve the liberty to ignore such complaints because I take all such as deliberate insults to the independent nature of our State. If you have any complaints, approach us direct."

Japan's Policy

The attitude of Japan to the new state of Manchukuo was made altogether clear in a forceful address on the subject by Count Uchida, Japanese Minister of Foreign Affairs, before the Japanese Diet on August 25, 1932. Referring to the new state, Count Uchida said:

"Those who seek to place upon Japan the responsibility for the Manchurian revolution by tracing the independence of Manchukuo directly to our military operations simply labor under ignorance of facts and their opinions altogether miss the point. Again as regards those who fancy that they detect secret connection of some sort on the part of Japan with the foundation of the new state, basing their suspicions on the fact that there are in fact a number of Japanese in the employ of the Manchukuo government, I need only point to the existence of many precedents for the enlistment by a young government or a newly founded state of the services of foreigners. Our own government since the Meiji Restoration have employed many foreigners as advisers or as regular officials; their number, for instance, in the year 1875 or thereabout exceeded 500. Those who misconstrue the presence of the Japanese in the Manchukuo government in a fashion alluded to are placing responsibility where it does not belong.

"Manchukuo has come into being as I have already remarked as a result of the separatist movements within China herself. Consequently, the view expressed in certain quarters that the recognition of the new state thus created would constitute a violation of the stipulations of the Nine-Power Treaty is in my opinion incomprehensible. The Nine-Power Treaty does not forbid all separatist movements in China or debar the Chinese in any part of the country from setting up on their free will an independent state. Hence, should Japan extend recognition to the existing government of Manchukuo founded by the will of the people of Manchuria, she would not thereby as a signatory power to the Nine-Power Treaty violate in any way the stipulations of that treaty. Of course, it would be a different matter on the assumption that Japan was seeking to annex Manchuria or otherwise satisfy the thirst for land. Only I hardly need to waste words in once more disclaiming at this juncture any territorial designs on our part in Manchuria or anywhere else."*

* New York Herald-Tribune, August 25, 1932.

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On September 14, Japan and Manchukuo signed a treaty of recognition and entered upon a military alliance. This treaty altogether altered the relations between the two states, for up to this moment, there was much ambiguity as to what would be the form and character of their association. Europeans particularly assumed that because large contingents of Japanese troops were in Manchuria, Japan would annex this territory. As this was never Japan's intentions, it was never understood in Japan why the Western World assumed that no more satisfactory formula for Japan's relations with Manchukuo could be found. As a matter of fact, this fundamental treaty between Japan and Manchukuo fully accords with the spirit and necessities of both countries. The treaty follows:

PROTOCOL

Whereas, Japan has recognized the fact that Manchukuo, in accordance with the free will of its inhabitants, has organized and established itself as an independent state; and

Whereas, Manchukuo has declared its intention of abiding by all international engagements entered into by China in so far as they are applicable to Manchukuo;

Now the Governments of Japan and Manchukuo have, for the purpose of establishing a perpetual relationship of good neighborhood between Japan and Manchukuo, each respecting the territorial rights of the other, and also in order to secure the peace of the Far East, agreed as follows:

1. Manchukuo shall confirm and respect, in so far as no agreement to the contrary shall be made between Japan and Manchukuo in the future, all rights and interests possessed by Japan or her subjects within the territory of Manchukuo by virtue of Sino-Japanese treaties, agreements or other arrangements or Sino-Japanese contracts, private as well as public;

2. Japan and Manchukuo, recognizing that any threat to the territory or to the peace and order of either of the High Contracting Parties constitutes at

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the same time a threat to the safety and existence of the other, agree to cooperate in the maintenance of their national security; it being understood that such Japanese forces as may be necessary for this purpose shall be stationed in Manchukuo.

The present protocol shall come into effect from the date of its signature.

The present protocol has been drawn up in Japanese and Chinese, two identical copies being made in each language. Should any difference arise in regard to interpretation between the Japanese and Chinese texts, the Japanese text shall prevail.

In witness whereof the undersigned, duly authorized by their respective Governments, have signed the present protocol and have affixed their seals thereto.

Done at Hsinking, this fifteenth day of the ninth month of the seventh year of Showa, corresponding to the fifteenth day of the ninth month of the first year of Ta-tung.

(L. S.) NOBUYOSHI MUTO,
Ambassador Extraordinary and
Plenipotentiary of His Majesty
the Emperor of Japan.

(L. S.) CHENG HSIAO-HSU,
Prime Minister of Manchukuo.

The Present State

No other country has recognized Manchukuo. As a matter of fact, the Stimson Doctrine is opposed to such recognition and the general activities of the Small State of Europe at the League of Nations have led to a disastrous controversy with regard to it. Nevertheless, Manchukuo goes on. It is now altogether independent of China. It manages its own customs and posts. It has its own army. It is fully organized as a state. It is embarking on a new industrial and commercial career for Manchuria. Recognized or not recognized, it offers for the American business man a valuable market for the sale of such commodities as machinery, steel, electrical

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and railroad equipment, oil, tobacco, cotton, etc. Manchukuo may mean more to American trade with that continent which on the maps still appears as China, than the Communist-ridden Yangtze Valley or the civil-war areas of South China.

In time, Manchukuo will become the paradise of Asia, because in this area of hard-working, honest, earnest farmers, there will be peace.

Appendix

WHO'S WHO AMONG THE HIGH OFFICIALS OF MANCHUKUO

(December, 1932)

CHANG CHING-HUI, President of the Privy Council, Minister of Defence and Governor of the Special District of Harbin, is 61 years of age. During the Revolution of 1911, he rendered services in maintaining peace in the province of Mukden. After the establishment of the Chinese Republic, he held the following posts, among others: Commander, 16th Division, 1920; Minister of War (Peiping Government), 1927; Minister of Industry (Peiping Government), 1927; Chief Civil Administrator, Harbin, 1928.

CHANG HAI-PENG, Member of the Privy Council and Chief aide-de-camp, age 65, was born in Kaiping-hsien, Fengtien Province. In 1912, he was appointed Brigadier General and later promoted to Lieutenant-General. He formerly held the following posts, among others: Commander, 55th Brigade, 28th Division; Commander, 4th Brigade, Northeastern Army; Commander, 32nd Division, Northeastern Cavalry.

CHANG YEN-CHING, Minister of Industry, was formerly Secretary of the Kirin Provincial Government, and Chief of the Department of Industry, Kirin Provincial Government.

CHAO HSIN-PO, President of the Legislative Council, was the Chief Justice of the Northeastern Supreme Court, and the Mayor of Mukden after the Incident of September 18, 1931. After he was graduated from the Peiyang University he studied at Meiji University, Tokyo. In 1926, he was appointed Legal Adviser to Marshal Chang Tso-lin, upon whose death, he continued to serve under Chang Hsueh-liang in the same capacity. He was also the President of the Northeastern Law Association.

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CHENG HSIAO-HSU, the Prime Minister and the Minister of Education, is 73 years old. After the establishment of the Chinese Republic, he continued to serve Pu-yi, first as tutor and subsequently as advisor. His son, Cheng Chui, is the Chief Secretary of the Cabinet. In his younger days, Cheng Hsiao-hsu was the Chinese Consul at Kobe, Japan. He later held the following posts: Director-General of the Frontier Defense of Kwangsi Province, Criminal Judge of Anhwei Province, Criminal Judge of Kwangtung Province, Treasurer of Hunan Province.

FENG HAN-CHING, Minister of Justice; born 1892; served in the Higher Courts of Kirin, Fengtien, Honan, and Shansi. He later held the following posts, among others: Director-General, Law Division of the Army; Director of the Peiping-Mukden Railway Bureau; Chief of the Department of Industry, Fengtien Province, 1932.

HAN YUN-CHIEH, Governor of Heilungkiang Province and Director of the Department of Industry, Heilungkiang Province. He was connected for many years with industrial and business circles in Manchuria, having been president of several large corporations, electrical, flour manufacturing, financial, etc.

HSI HSIA, Governor of Kirin Province and Minister of Finance, is a pure Manchu of forty-eight years of age. He is a graduate of Tokio Military Academy. In 1912 he was appointed staff officer in the Heilungkiang Army; in 1919, Director of the Mukden Military Academy; and in 1924, Chief of Staff to the Kirin Army. Soon after the Mukden Incident of September 18, 1931, he severed relations with Chang Hsueh-liang and established the new government of Kirin Province under his governorship. When Manchukuo was founded, he was appointed Minister of Finance.

HSIEH CHIEH-SHIH, Minister of Foreign Affairs, age 54, was born in Formosa. Upon graduating from a public school, he served as official interpreter in Formosa and later studied at Meiji University, Tokio. After he returned to China he was appointed to several public offices, including Political Adviser to the Governor of Kirin Province and Commissioner of Foreign Affairs, Chihli Provincial Government.

PU-YI, the Chief Executive of Manchukuo, was the 12th and the last Emperor of Ching Dynasty. On November 14, 1908, he became Emperor of China at the age of four. On account of his age, his father, Prince Chun, who was brother to the preceding Emperor Kuang-hsu, acted as Regent. As a result of the Revolution of 1911, he abdicated the throne on February 12, 1912, on conditions that he retain the title of, and receive the treatment accorded to, an "Emperor," and that the new government would pay him an allowance of 4,000,000 taels each

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year. In July, 1917, he again ascended the throne on General Chang-hsun's coup d'etat, but this restoration lasted only for 13 days. He remained in Peking at his ancestral palace until 1924, when General Feng Yu-hsiang compelled him to leave the palace. Together with the Empress he sought safety at the Japanese Legation in Peking where he stayed until February, 1925. He later moved to the Japanese Concession in Tientsin where he lived until he returned to Manchuria recently. Now he is 27 years old.

TANG YU-LIN, Vice-President of the Privy Council and Governor of Jehol Province, is 61. He is a graduate of the Mukden Military Academy and was sometime Commander of the 11th Division and later Commander of the 12th Army. In 1917 he participated in the movement to restore Pu-yi to the Throne. He was later allied to Marshal Chang Tso-lin, and in 1926 he succeeded in ousting the Nationalist Army from the Province of Jehol and assumed the governorship, which post he still retains.

TING CHIEN-HSIU, Minister of Communication, age 56, is a graduate of Waseda University, Tokio. His official career was mainly connected with police affairs. However, he was once President of the Sino-Japanese Kungchangling Iron Mining Company, and recently Chairman of the Northeastern Communication Committee.

TSANG SHIH-I, Minister of Home Affairs and Governor of Fengtien Province, was most energetic in the establishment of the new state after the fall of Chang Hsueh-liang. After studying at the Tokyo Military Academy, he served in the Heilungkiang Army as a staff officer. He was later promoted to Lieutenant-General. In 1928, he became the Director-General of the Military Arsenal of the Three Eastern Provinces, and later the Governor of Fengtien Province which post he still retains.

YUAN CHIN-KAI, Member of the Privy Council, is a civilian of 62 years, who is noted as a poet as well as a caligraphist. In the midst of the Mukden Incident of September 18, 1931, while other notables took flight, Yuan remained steadfast and organized the Peace Maintenance Committee, appointing himself as its chairman, and succeeded in maintaining order. In his official career he held the following posts: Chief of the Liaoyang Police Headquarters; Director of the Chinese Eastern Railway; High Civil Adviser to the late Marshal Chang Tso-lin; Member of the Northeastern Political Committee.

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